The Manitoba Hydro-Electric Board

QUARTERLY REPORT

for the three months ended June 30, 2015

Comments by

THE CHAIR OF THE BOARD

and by

THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Financial Overview

Manitoba Hydro's consolidated net loss from electricity and natural gas operations was $29 million for the first three months of the 2015-16 fiscal year compared to net income of $10 million for the same period last year. The decrease in net income of $39 million was largely attributable to higher expenses and decreased revenues from gas sales partially offset by higher extraprovincial sales.

The consolidated net loss was comprised of a $21 million loss in the electricity sector and an $8 million loss in the natural gas sector. The loss in the natural gas sector is the result of seasonal variations in the demand for natural gas and is expected to be recouped over the winter heating season.

Based on the continuation of current water flow and export market conditions, Manitoba Hydro is forecasting that financial results will improve over the balance of the fiscal year and net income should exceed $80 million by March 31, 2016.

Transition to International Financial Reporting Standards

Effective April 1, 2015 Manitoba Hydro adopted International Financial Reporting Standards (IFRS) including IFRS 1 *First Time Adoption of IFRS*. This is the first quarterly report prepared under IFRS.

The Consolidated Statement of Income was prepared using the new interim standard IFRS 14 *Regulatory Deferral Accounts* which allows Manitoba Hydro to continue to recognize regulated balances for financial reporting purposes. This results in the deferral of costs and recoveries that under IFRS would otherwise be recorded as expenses or income in the current accounting period. The net movement in regulatory deferral account balances on the Consolidated Statement of Income captures the timing differences between IFRS and those amounts approved by the Public Utilities Board (PUB) for rate-setting purposes. The deferred amounts are either recovered or refunded through future rate adjustments. The new interim standard is only intended to provide temporary guidance until the International Accounting Standards Board completes its comprehensive project on rate regulated activities.

In addition, retrospective adjustments have been made to equity upon adoption of IFRS as a result of changes in accounting policies for employee benefits between IFRS and Canadian Generally Accepted Accounting Principles (GAAP). The most notable change is that the cumulative actuarial gains and losses related to pensions are recognized in the opening balance of other comprehensive income.

Manitoba Hydro will make significant accounting policy changes under IFRS. Manitoba Hydro has adopted the Equal Life Group method for calculating depreciation expense and asset retirement costs will no longer be included in depreciation rates. IFRS specifically excludes administrative and general overhead costs from capitalization and as a result these costs will now be expensed as incurred. IFRS requires immediate recognition of actuarial gains and losses associated with pension plans in Other Comprehensive Income in the period in which they occur. In addition, past service costs associated with plan improvements or amendments are expensed as incurred and actuarial obligations are recognized for all accumulating benefit plans.

Electricity Operations

Revenues from electricity sales within Manitoba totaled $310 million for the three-month period, which was $4 million or 1% lower than same period last year. The decrease in domestic revenue was primarily attributable to warmer weather as compared to the prior year resulting in lower heating loads. Extraprovincial revenues of $111 million were $9 million or 9% higher than the same period last year reflecting higher contract prices on dependable sales and increased opportunity sales volumes, partially offset by lower dependable sales volumes and lower opportunity rates. Energy sold in the export market was 3.0 billion kilowatt-hours compared to 2.9 billion kilowatt-hours sold in the same period last year.

Expenses attributable to electricity operations, including the net movement in regulatory deferral balances, totaled $466 million for the three-month period, an increase of $43 million or 10% higher than the same period last year. The increase was primarily the result of a $19 million increase in finance expense, a $12 million increase in operating and administrative costs, an $8 million increase in other expenses and an $8 million increase in depreciation and amortization partially offset by a $6 million net movement in regulatory deferral account balances. The increase in finance expense was

primarily due to higher volumes of long-term debt to finance capital expenditures and the impact of the weakening Canadian dollar partially offset by lower interest rates. The increase in operating and administrative costs is mainly due to higher benefit costs as a result of a lower market driven discount rate and higher costs of system maintenance. The increase in other expenses, which is mainly offset by the change in the net movement in regulatory deferral accounts is primarily the result of higher spending on demand-side management programs (DSM). The increase in depreciation and amortization is mainly attributable to new additions to plant and equipment coming into service including the Riel Station and the Pointe du Bois spillway replacement.

The net loss before net movement in regulatory deferral balances is $25 million. After considering the net movement of $1 million in the regulatory deferral account balances, there is a net loss of $24 million of which $21 million is attributable to the Manitoba Hydro and $3 million is attributable to non-controlling interest. The non-controlling interest represents Taskinigahp Power Corporation's 33% share of the Wuskwatim Power Limited Partnership's operating results, for the first three months of the 2015-16 fiscal year.

Capital expenditures for the three-month period amounted to $496 million compared to $373 million for the same period last year. Expenditures during the current period included $185 million for Bipole III project, $163 million related to future Keeyask generation, and $17 million for the Pointe du Bois project. The remaining capital expenditures were incurred for ongoing system additions and modifications necessary to meet the electrical service requirements of customers throughout the province. The Corporation also incurred $10 million for electric DSM programs.

Natural Gas Operations

In the natural gas sector, a net loss of $8 million was incurred for the three-month period compared to a $6 million net loss for the same period last year. Revenue, net of cost of gas sold, was $27 million which was $10 million higher than the same period last year. The increase in net revenue was largely the result of lower gas costs compared to the prior year partially offset by warmer weather than the previous period. Delivered gas volumes were 347 million cubic metres compared to 379 million cubic metres in the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold amounted to $34 million compared to $35 million for the same period last year.

The net loss before net movement in regulatory deferral balances is $7 million. The $13 million change in the regulatory deferral account balance over the prior year is primarily attributable to the actual cost of gas being higher than PUB approved rates in the previous year. After considering the net movement of $1 million in the regulatory deferral account balances, there is a net loss of $8 million.

Capital expenditures in the natural gas sector were $7 million for the current three-month period compared to $6 million for the same period last year. Capital expenditures are related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province. The Corporation also incurred $2 million for gas DSM programs.

Natural Gas Rate Decrease

In accordance with Manitoba Hydro's methodology to change natural gas rates every quarter depending on the price of gas purchased from Alberta, rates for residential customers decreased on May 1, 2015 by 1.7% or approximately $14 per year. Rate decreases for larger volume customers ranged from 1.9% to 3.2% depending on the customer class and consumption levels.

William Fraser, FCA
Chair of the Board

Scott Thomson, CA
President and
Chief Executive Officer
August 14, 2015

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	Three Months Ended June 30	
	2015	**2014**
Revenues		
Domestic – Electric	310	314
– Gas	60	69
Extraprovincial	111	102
Other	21	17
	502	502
Expenses		
Cost of gas sold	33	52
Operating and administrative	150	139
Finance expense	143	124
Depreciation and amortization	98	90
Water rentals and assessments	31	29
Fuel and power purchased	26	27
Capital and other taxes	30	29
Other expenses	23	15
	534	505
Net loss before net movement in regulatory deferral account balances	(32)	(3)
Net movement in regulatory deferral account balances	-	7
Net Income (Loss)	(32)	4
Net income (Loss) attributable to:		
Manitoba Hydro	(29)	10
Non-controlling interest	(3)	(6)
	(32)	4

Consolidated Statement of Financial Position

In Millions of Dollars (Unaudited)

	As at June 30 **2015**	*As at June 30* **2014**
Assets		
Current assets	1 106	782
Capital assets	15 650	13 924
Non-current assets	823	695
Regulatory deferral account debit balances	350	378
	17 929	15 779
Liabilities and Equity		
Current liabilities	1 145	896
Long-term debt (net)	12 607	10 800
Other long-term liabilities	1 590	1 242
Deferred Revenue	451	391
Non-controlling interest	127	67
Retained earnings	2 697	2 653
Accumulated other comprehensive income	(688)	(270)
	17 929	15 779

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	Three Months Ended June 30	
	2015	**2014**
Operating Activities		
Cash receipts from customers	599	616
Cash paid to suppliers and employees	(282)	(483)
Net interest	(159)	(146)
	158	(13)
Financing Activities	392	372
Investing Activities	(504)	(353)
Net increase in cash	46	6
Cash at beginning of period	494	142
Cash at end of period	540	148

Consolidated Statement of Comprehensive Income

In Millions of Dollars (Unaudited)

	Three Months Ended June 30	
	2015	**2014**
Net Income (Loss) attributable to Manitoba Hydro	(29)	10
Other Comprehensive Income (Loss)		
Unrealized foreign exchange gains (loss) on debt in cash flow hedges	31	62
Realized foreign exchange (gains) losses on debt in cash flow hedges	(4)	-
	27	62
Comprehensive Income (Loss)	(2)	72

Segmented Information

In Millions of Dollars (Unaudited)

Three Months Ended	Electricity		Gas		Total	
June 30	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Revenue	442	433	60	69	502	502
Expenses	467	418	67	87	534	505
Net income (Loss) before net movement in regulatory deferral account balances	(25)	15	(7)	(18)	(32)	(3)
Net movement in regulatory deferral account balances	1	(5)	(1)	12	-	7
Net Income (Loss)	(24)	10	(8)	(6)	(32)	4
Net income (Loss) attributable to:						
Manitoba Hydro	(21)	16	(8)	(6)	(29)	10
Non-controlling interest	(3)	(6)	-	-	(3)	(6)
	(24)	10	(8)	(6)	(32)	4
Total Assets	17 263	15 099	666	680	17 929	15 779

Generation and Delivery Statistics

	Three Months Ended June 30	
	2015	**2014**
Electricity in gigawatt-hours		
Hydraulic generation	8 548	8 437
Thermal generation	-	5
Scheduled energy imports	9	30
Wind purchase (MB)	212	233
Total system supply	8 769	8 705
Gas in millions of cubic metres		
Gas sales	169	196
Gas transportation	178	183
	347	379

For further information contact:

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Cover: Cofferdam construction in the spring of 2015 at the site of the Keeyask Generating Station on the Nelson River in northern Manitoba. Keeyask is being developed by the Keeyask Hydropower Limited Partnership, a venture between four partner First Nations (Tataskweyak Cree Nation, War Lake First Nation, Fox Lake Cree Nation, and York Factory First Nation) and Manitoba Hydro.

Manitoba Hydro